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MEMORANDUM

TO: Health Departments and Quasi-Governmental Agencies Participating in the Kentucky Employees Health Plan

FROM: Christine S. Wilcoxson, Commissioner, Department for Employee Insurance

DATE: October 3, 2006

SUBJECT: HRA/FSA Participation

Please allow this correspondence to serve as notice of an additional benefit for most participants covered under the Kentucky Employee Health Insurance Plan ("the plan"). In 2006, the Kentucky General Assembly passed House Bill (HB) 380 which requires the Personnel Cabinet to offer a health reimbursement account (HRA) to public employees. An HRA is an employer-funded account that reimburses employees for qualified medical expenses. Most importantly, funds that are not used to reimburse the employee during the coverage period may be carried over to subsequent coverage periods, so long as the employee maintains the HRA. The ability to carry funds over to the next coverage period is a benefit that is not currently available to participants enrolled in flexible spending accounts (FSA) under the federal "use it or lose it" rule.

HB 380 also requires that, for those employees who waive coverage under the plan, the employer forward a monthly amount into an HRA for the benefit of the employee. This means that employer funds must be transferred to the HRA and are no longer permitted to be transferred into alternative accounts or arrangements, such as a flexible spending account. The coverage waiver amount is now one hundred seventy-five dollars (\$175).

The Department for Employee Insurance (DEI) is required to implement the relevant portions of HB 380 (now codified in KRS 18A.2254(2)). In pursuit of effectuating the implementation of this KRS 18A.2254(2), the Personnel Cabinet must determine who encompasses a "public employee" for purposes of the Kentucky Employees Health Plan. Exclusively for the implementation of KRS 18A.2254(2), the Personnel Cabinet considers the following groups or members to be "public employees" under the Kentucky Employees Health Plan:

- Executive branch employees;
- Legislative branch employees;
- Judicial branch employees; and
- Employees of local school districts.

Said determination is specifically limited to the Kentucky Employees Health Plan and KRS 18A.2254(2), and is not to be used to limit or expand the definition of “public employees” as contained in other sections of the Kentucky Revised Code. The aforementioned employer of these groups or members “shall forward a monthly amount to be determined by the secretary of the Personnel Cabinet, but not less than one hundred seventy-five dollars (\$175), for that employee as an employer contribution to the health reimbursement account.”

Other agencies or groups not listed above may still participate in the HRA. This group includes, but is not limited to, KCTCS, health departments, and quasi agencies. Should an agency or group desire to participate in the HRA, it is important to contact DEI no later than October 9, 2006.

If an agency or group decides to participate in the HRA, the agency or group shall also participate in the FSA offered by DEI. Once a group has decided to participate in the HRA offered by DEI, the group shall participate exclusively in the HRA as well as the FSA offered by DEI. The group shall not offer any other health accounts or arrangements to its employees other than those offered by DEI. In addition, for those agencies who elect to participate in the HRA and FSA offered by the Kentucky Employees Health Plan, any lapsed funds in those accounts shall revert to the Kentucky Employees Health Plan Trust Fund, and shall not be returned to the agency.

Should you have any additional questions or concerns, please do not hesitate to contact my office at (502) 564-0358.